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Taiga Forest Products Ltd. 2001 Annual Report

Mission Statement:

Taiga Forest Products, the leading Canadian producer and distributor of high-quality building products, is committed to delivering exceptional value to our shareholders, customers, suppliers and employees.

for the 12 months ended March 31,	2002	2001	2000	1999	1998
Sales and Income (000's)					
Sales	$ 854,313	$ 790,167	$ 904,491	$ 695,013	$ 668,041
Cash flow from operations	1,355	5,287	7,621	6,205	5,383
Cash flow from operations – before future income tax	6,768	1,923	7,621	6,205	5,383
Earnings before income taxes	8,607	1,717	11,403	9,272	8,435
Net earnings	6,244	841	6,069	5,308	4,530
Common Share Data					
Common shares outstanding at end of period	3,883,710	3,824,960	3,822,460	3,812,960	3,812,460
Cash flow from operations per share	$ 0.35	$ 1.38	$ 1.99	$ 1.63	$ 1.41
Cash flow from operations per share – before future income tax	1.74	0.50	1.99	1.63	1.41
Net earnings per share	1.61	0.22	1.59	1.39	1.19
Shareholders' equity per share	16.27	15.17	14.96	13.38	11.99
Financial Position (000's)					
Working capital	$ 40,664	$ 42,237	$ 45,724	$ 36,184	$ 30,279
Total assets	217,644	201,687	241,767	167,522	157,885
Long-term debt	5,625	12,161	14,589	8,232	20
Shareholders' equity	63,192	58,032	57,171	51,026	45,714
Capital expenditures	3,087	7,631	4,685	8,499	5,619
Other Data					
Return on sales	0.73%	0.11%	0.67%	0.76%	0.68%
Return on capital employed	9.07%	1.20%	8.46%	8.96%	9.90%
Return on shareholders' equity	9.99%	1.45%	10.62%	10.40%	9.91%
Ratio of current assets to current liabilities	1.28:1	1:33:1	1.27:1	1.33:1	1.27:1
Long-term debt to shareholders' equity	0.089	0.210	0.255	0.161	0.001
Inventory turnover – times per year	11.4	10.7	11.8	11.7	11.4
Average age of accounts receivable – number of days	35.5	35.0	32.2	32.0	32.5

Table of Contents

taiga AT A GLANCE

Taiga Forest Products is Canada's largest independent wholesale distributor of lumber, engineered wood products, preserved wood products, panel products and related building materials such as insulation, Trex® composite lumber, asphalt shingles, wood mouldings and nails.

Our coast-to-coast network of 15 full-service distribution centres provides the essential link between manufacturers with large volumes of product to sell, and retailers and industrial customers with smaller, wide-ranging needs.

From Nanaimo, B.C. to Halifax, Nova Scotia, we keep a balanced mix of building products on the ground, so we can meet our customers' "just-in-time" inventory needs. We also distribute lumber, panelboards and value-added products to a wide range of customers in the United States, both through our distribution facilities and a number of reload centres.

In addition, Taiga operates state-of-the-art lumber preservation plants in Langley, B.C. and Edmonton, Alberta, and remanufacturing facilities in Elmira, Ontario, to produce value-added products such as Taiga Wood preserved lumber, custom-cut lumber and fencing panels. These items are sold through our national distribution network.

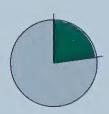
Sales
by Geographic Region

2001 - 76% CDN
24% US

Lumber Product Sales
as a percentage of total sales

2001 - 65%

Panel Product Sales
as a percentage of total sales



2001 - 23%

Allied Building Product Sales
as a percentage of total sales

2001 - 12%

Sales Offices

a. Burnaby

13,662 sq.ft.
Head Office &
U.S. Trading

Leased

b. Concord

Sales and
Administration Office
Dynamic Forest
Products Ltd.
(Subsidiary)

Leased

c. Laval

Sales Office
Dynamic Forest
Products Ltd.
(Subsidiary)

Leased

Distribution Centres

British Columbia				
1. Nanaimo	10,500 sq.ft.	Distribution Centre	2.0 acres	Leased
2. Langley	105,000 sq.ft.	Distribution Centre	10.0 acres	Owned
	42,000 sq.ft.	Wood Preservation Plant		
		Envirofor Preservers (BC) Ltd.(Subsidiary)	9.0 acres	Owned
3. Kelowna	14,500 sq.ft.	Distribution Centre	2.5 acres	Owned
4. Prince George		Distribution Centre	1.0 acres	Leased
Alberta				
5. Calgary	50,000 sq.ft.	Distribution Centre	15.0 acres	Owned
6. Edmonton	35,000 sq.ft.	Distribution Centre	7.0 acres	Owned
	54,000 sq.ft.	Wood Preservation Plant		
		Envirofor Preservers (Alta) Ltd. (Subsidiary)	8.5 acres	Owned
Saskatchewan				
7. Saskatoon	14,400 sq.ft.	Distribution Centre	4.0 acres	Owned
8. Regina	21,000 sq.ft.	Distribution Centre	4.2 acres	Owned
Manitoba				
9. Winnipeg	14,000 sq.ft.	Distribution Centre	4.0 acres	Owned
Ontario				
10. Sudbury	14,000 sq.ft.	Distribution Centre	5.0 acres	Owned
11. Brampton	35,800 sq.ft.	Distribution Centre	5.3 acres	Leased
12. Milton	68,000 sq.ft.	Distribution Centre	11.5 acres	Owned
	30,000 sq.ft.	Light Manufacturing Facility		
		Elmira Wood Products Ltd. (Subsidiary)	18.2 acres	Owned
Quebec				
13. Boucherville	52,923 sq.ft.	Distribution Centre	12.0 acres	Owned
14. St. Augustin	36,000 sq.ft.	Distribution Centre	7.0 acres	Owned
Nova Scotia				
15. Halifax	19,000 sq.ft.	Distribution Centre	3.5 acres	Leased

TO OUR SHAREHOLDERS

For 29 years, Taiga Forest Products has built its business around three key elements: exceptional products, exceptional service, and exceptional people. By consistently providing our customers and suppliers with all three, we have evolved from a small, single-office lumber trading company into Canada's largest independent wholesale distributor of building products. Last year, our commitment to exceptional business standards led to another satisfying outcome – exceptional financial results.

We are pleased to report that during fiscal 2001, Taiga's performance was the best in our history. For the 12 months ended March 31, 2002, we recorded sales of $854 million, an increase of 8% over the previous year's sales of $790 million. Net earnings rose to $6.2 million, up from $841,000 in fiscal 2000, and earnings per share hit a new high, growing to $1.61 per share from $0.22 per share the previous year. Finally, our cash flow from operations per share (before future income taxes) rose to $1.74, up from $0.50 per share in fiscal 2000.

Our excellent financial results were propelled by robust housing and renovation markets in both Canada and the United States. Between April 2001 and March 2002, interest rates in both countries fell an average of 300 basis points. Declining rates – the lowest in four decades – spurred consumer investment in new housing and home repair projects, boosting the demand for building products as a whole.

In response, the exceptional team at our Canada-wide distribution centres, along with our Burnaby-based traders, buyers and administrative staff, stepped up the pace to ensure our customers were always fully stocked with the products they needed to service the housing and renovation boom.

By the end of the year, we had succeeded in turning the inventory at our distribution centres and reload yards approximately 12 times. In addition, our sales per full-time employee averaged $2.4 million. We believe this exceptional level of productivity is unmatched by any other publicly traded company in Canada.

Our strong financial results are also partially attributable to an upward price trend within the wood commodities market. As approximately 88% of Taiga's sales come from lumber and panel products, our profitability is closely tied to the price performance of these two building materials. Falling commodity prices, like those recorded during the year ended March 31, 2001 (fiscal 2000) are tough on our profit margins because, as a stocking wholesale distributor, we are forced to purchase inventory that is decreasing in value. Last year, just the opposite occurred. The value of our standing inventory increased with rising commodity prices, and our profitability improved.

A third factor in our increased earnings was the substantial decline in our year-over-year borrowing costs. During fiscal 2001, interest costs were down approximately $1.8 million compared to the prior year.

Vendor of the Year Award

In February 2002, Taiga was named the "National Lumber and Panelboard Vendor of the Year" by the Canadian Retail Building Supply Dealers. This is the second year in a row Taiga has won this award, which is for service provided during the 2001 calendar year. Being named "Lumber and Panelboard Vendor of the Year" is a great honour for Taiga, as it indicates our customers value the service we offer.

PRODUCT REVIEW

In a booming construction market like last year's, stocking the right building materials is key to our success. By carrying the products our customers need most – the core items that make up the vast majority of a retail building yard's sales – and the products our customers want most – the familiar brand names our end-users trust – we were well-positioned to respond to burgeoning demand. Last year, all our products performed exceptionally well, as more people spent more money building or renovating their homes.

Most importantly, lumber and panel products both recorded an excellent year by any measure. Lumber prices began rising during our first quarter and continued to increase throughout the year, jumping from an average of US $223 per thousand

board feet during fiscal 2000 to US $266 for the year ended March 31, 2002. Oriented strandboard (OSB), which accounts for 40% of our total panelboard sales, also realized marked year-over-year price improvement, rising from an average of Cdn $233 in fiscal 2000 to Cdn $273 per thousand square feet last year.

Taiga's line of preserved lumber, Taiga Wood, also turned in good results, recording a year-over-year sales increase of 17%. Produced at our two modern wood preservation plants in Langley, B.C. and Edmonton, Alberta, this extremely durable product has made solid sales gains since we introduced it 15 years ago. As consumer recognition and acceptance of Taiga Wood increases, we continue to capture a growing share of the market for preserved lumber.

The balance of Taiga's sales come from allied building products such as insulation, asphalt shingles, wood mouldings, engineered wood products, Trex® composite decking and nails. While these items make up a relatively small proportion of our total sales volume, we rely on their consistently strong sales performance to help stabilize our financial results in years when commodity prices are volatile. Stocking them also enables our customers to order the products they need to service the booming "do-it-yourself" renovation market. This is an important capability in a year like 2001, when Canadians spent more than $23 billion on home improvement projects.

Taiga's allied product line made its usual solid contribution to our results last year. Year-over-year sales for the entire group increased by more than 6%, from $96 million to $102 million, with individual products reporting even stronger growth. Sales of Louisiana Pacific 'Solid Start' engineered wood products, for example, were up by 29%, while sales of Emco's line of 'BP' roofing products rose by 26%.

The two new allied products we began stocking in April 2001 also made good gains. The first, Trex® Easy Care Decking, is a high-performance composite lumber made entirely of recycled plastic and wood fibre. Trex® stands up to the harshest weather conditions without requiring stains or sealants and, together with Taiga Wood, forms a complete decking applications package.

Our product mix was strengthened further with the addition of the complete line of Grace roofing underlayment, a high-quality product that complements our existing roofing line. We are pleased with the initial results from both new products, and expect to see continued sales growth in the coming year, as market penetration increases.

We started our fourth quarter by expanding our relationship with Owens Corning with an agreement that names Taiga as the sole Canadian distributor of their 'Celfort' rigid insulation. This product has a great track record with us, realizing year-over-year sales growth of 28% during fiscal 2001 alone. With the new, exclusive arrangement, we anticipate accelerated sales growth during the coming months as we advance our partnership with this key supplier.

REGIONAL REPORTS

Taiga's network of 15 full-service distribution centres stretches across Canada from the West Coast of British Columbia to Halifax, Nova Scotia. Our cross-country presence enables us to offer all our customers "just-in-time" delivery service, while providing our suppliers with access to national markets. Maintaining coast-to-coast operations also helps protect Taiga from cyclical downturns in any one of Canada's diverse economic regions.

Last year, we recorded good financial results in virtually every province, as historically low interest rates stimulated heavy spending on new housing and home repair projects right across the country.

In B.C., our four regional distribution centres recorded a slight improvement in year-over-year sales, despite a still sluggish provincial economy. Although this forestry-rich province has been hit particularly hard by the softwood lumber trade dispute with the U.S., B.C.'s housing starts are still forecast to rise from 17,234 in 2001 to 18,400 in 2002. Accordingly, we expect moderate sales growth from this region during the coming year.

In Alberta, Saskatchewan and Manitoba, healthy economic conditions contributed to strong sales performance across all of our product lines, and at all five of our Prairie distribution centres. In Calgary, we opened a new 50,000 square foot state-of-the-art facility on 15 acres of land in March 2001. After the first full year of operations, we are pleased to report that gains in efficiency at this centre have surpassed our highest expectations.

As we begin our new fiscal year, the outlook for the Prairie region remains positive. Bolstering our bullish outlook is a recent Statistics Canada report that shows the number of building permits issued in January 2002 up substantially over January 2001. In Edmonton, for example, new building permits rose by 87%, while Calgary recorded an increase of 25% and Winnipeg saw gains of almost 19%.

Recent upgrades to our distribution centres across the Prairies, including the addition of outside covered storage capacity in Edmonton and the September 2000 opening of expanded facilities in Saskatoon, have enhanced our ability to service this vibrant market and we look forward to another year of strong results in 2002.

Taiga's Eastern operations in Ontario, Quebec and Nova Scotia also reported uniformly good financial results last year. An exceptional spring 2001 building season set a brisk sales pace in the first quarter, which continued unabated through March 2002.

Dynamic Forest Products, a Taiga subsidiary formed in fiscal 1999, capitalized on the exceptionally active housing and renovation market to record another year of outstanding sales. Through offices in Concord, Ontario and Laval, Quebec, Dynamic distributes lumber and other building products within Canada and into the U.S.

Our remanufacturing plant in Elmira, Ontario, which opened in February 2001, recorded excellent full-year results as well. Here, we produce a variety of value-added wood products, including custom-cut dimension lumber, lattice, fence products and garden sheds. We expect to continue building on last year's solid financial performance at these facilities during fiscal 2002.

Other highlights from the Eastern region include the September 1, 2001 opening of a brand-new distribution centre in Halifax, Nova Scotia. Situated on 3.5 acres of fully lit grounds, the 19,000 square foot facility replaces the 10,800 square foot leased centre we had previously occupied, nearly doubling our covered storage capacity. The new facility enhances Taiga's ability to service Halifax and the entire Maritime region, and positions us to respond to the growth forecast for the local housing market.

As we begin our fiscal 2002, Eastern Canada's new home and renovation market continues to flourish. Ongoing construction activity, as well as a recent rebound in local industrial markets, should drive steady demand for our products during the coming months. Accordingly, we anticipate continued strong sales across the region for fiscal 2002.

U.S. SALES

In addition to serving Canadian retailers, Taiga distributes lumber, panel products and other building supplies to a wide range of American customers. These include contractor yards, retailers, and buying co-ops, as well as industrial markets like mobile home manufacturers. Traditionally, approximately 30% of our sales are into the U.S. Last year, however, the cross-border lumber trade was plagued by tremendous uncertainty following the March 31, 2001 expiration of the Softwood Lumber Agreement. As a result, our year-over-year U.S. sales volumes were down.

The sales decrease is also due in part to a cooling of the U.S. economy, which was exacerbated by the tragic events of September 11th. However, by the end of November, mild weather and low interest rates had begun to rejuvenate the American housing market, and we experienced relatively strong demand for building products through the balance of the winter.

As we look ahead, it's difficult to predict how our future U.S. sales will be affected by the current imposition of a 27.2% import duty on May 22, 2002. Despite the strain this places on one of the world's closest trading relationships, we remain confident that American retailers will continue to purchase Canadian softwood lumber, and that Taiga will continue to be a distributor of choice within the U.S. market.

EXPORT SALES DEPARTMENT

In 1998, we created an Export Sales Department to sell building products into the Pacific Rim and South Pacific. Since then, the three traders dedicated to this initiative have successfully expanded our markets to include Korea, Taiwan, China and Japan, and grown their annual sales to approximately $11 million.

Export sales of our Taiga Wood preserved lumber products have been particularly strong and are expected to grow in the months and years to come.

OBJECTIVES FOR FISCAL 2002

Moving forward, one of our major objectives will be to find new sales opportunities and to develop new operating strategies within the U.S. market, in light of the punitive and unjust duties recently imposed on softwood lumber imports by a highly protectionist American government. While these measures have greatly affected Canadian mills, as a wholesaler, Taiga is in the fortunate position of being able to add the duty to our price when selling to our American customers. We are confident that we will continue recording good sales in the U.S. despite the duty.

We will also increase our focus on Taiga Wood in the coming year. In April 2002, we purchased the 50% share that Millar Western held in Envirofor (Alta) Ltd. As a result, Taiga now owns 100% of both the Edmonton, Alberta and Langley, B.C. wood preservation facilities.

One of our first initiatives for fiscal 2002 will be completing the installation of new technology at both plants. This will enable us to convert from a chromated copper arsenate fixative (CCA) to a more widely accepted copper-based amine solution. This chemical changeover will not significantly affect our operations, as our preservation plants were designed to accommodate alternative chemicals with minimal conversion costs.

Finally, we will continue to seek new ways to reduce our operating expenses in order to achieve even better results on our bottom line.

OUTLOOK

As we begin our 30th year of business, the traditional market indicators point toward another 12 months of steady sales activity. While Canadian interest rates have risen slightly in recent months, they are still hovering at record lows, and the new housing and home renovation markets remain healthy. Across the border, the U.S. Federal Reserve has held American interest rates low, in order to stimulate economic recovery. Consequently, we believe the U.S. housing market will continue to be strong through fiscal 2002.

In addition, we undertook several new initiatives last year to bolster our market position. We strengthened our national distribution network through investment in our Edmonton and Halifax facilities. We enhanced our product mix with the addition of Trex® decking materials and Grace roofing underlayment. And we formed a new distribution agreement with a key supplier granting us exclusive Canadian distribution rights to an outstanding product. As a result, we are well-positioned to respond to the anticipated market activity.

Of course, we can't guarantee the coming year will unfold as we expect. However, after 29 profitable years in the wholesale distribution business, we can state with some certainty that our financial results will continue to be positive, whether or not market conditions are favourable.

We attribute our consistent earnings record to an enduring focus on the three key elements upon which Taiga Forest Products has been built. We stock exceptional products, back them with exceptional service, and employ exceptional people who always give their best.

In the following pages, we'd like to recognize a few of these exceptional products, as well as some of the people who have contributed to Taiga's long history of growth and profitability. While there are many others we could have selected, we believe these choices represent the exceptional quality of our entire product line and the unrivalled dedication of every individual on the Taiga team.

In closing, we would like to thank our employees for their outstanding efforts during a busy year and for all their exceptional acts of service, big and small. We'd also like to thank our suppliers for providing the exceptional products we sell and our company directors, including both our independent directors and the directors from the Berjaya Group, for their valued guidance throughout the year. And, finally, we want to offer thanks to our shareholders for your continued support of Taiga. We remain committed to increasing the value of your investment.

Patrick Hamill
President and Chief Executive Officer

SOFTWOOD LUMBER TRADE DISPUTE

Q1 *How has Taiga been affected by the expiration of the Softwood Lumber Agreement on March 31, 2001 and how have you dealt with this challenge?*

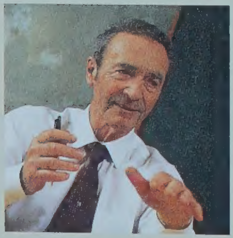
PH The lack of a trade agreement with the United States throughout our entire fiscal year led to tremendous uncertainty in the marketplace. There were no set ground rules, so it was difficult to decide how best to operate. However, Taiga continued to sell lumber to our U.S. customers at close to our normal volume levels last year, and we expect to sell similar amounts during the next 12 months.

Strategically, we responded by scaling back the inventory levels at our branches and reload centres. That helped reduce the risk associated with an unstable market.

Q2 *How is the 27.2% duty which took effect on May 22, 2002 expected to affect Taiga in the coming year?*

PH While a 27.2% duty is certainly punitive and, in my view, totally unjustified, we are not affected to the same degree as lumber producers. As a wholesale distributor, Taiga buys and sells lumber at the market price. What that means is, it's the Canadian lumber producers who are forced to absorb the extra cost of the duty – not us.

While we're concerned about the industry as a whole, we are particularly concerned about the small, independently operated mills. Without a doubt, this decision will lead to significant job losses and possible mill closures for them.



Now that a final determination has been made, there is at least some certainty in the marketplace. Even so, we'll probably see a couple of months of turmoil at the outset. Taiga's strategy in the short-term will be to keep our inventory levels relatively low until the market settles down – as it always does.

I'm also confident that Taiga will continue to perform as well as we have in the past, because we employ some of the best traders in the industry. We have people across the country who talk to mills everyday. They always have a very good sense of what's happening in the lumber markets, and make their trading decisions accordingly.

Q3 *You believe that protectionism is fundamentally bad economics. Could you expand on this?*

PH The rules of comparative economics are clear. All market participants should focus on their own particular area of expertise. Manufacturers should turn out whatever they can best produce at the lowest possible cost – whether it's computers, stereo systems, or softwood lumber. If this is allowed to occur without intervention, then ultimately, all participants benefit. That's because when they engage in trade with one another, they'll be paying the lowest price on every item.

In Canada, one of our traditional strengths has been lumber production. However, by imposing such a stiff trade duty, the U.S. effectively transforms low-cost lumber producers into high-cost producers, devastating their area of expertise, and dulling their competitive edge. It's very difficult for Canada to go head-to-head with other lumber-producing countries who do not have to bear the cost of these tariffs.

In addition, this duty seems particularly unjust because we have earned our reputation as a low-cost lumber manufacturer. In B.C., for example, many forestry companies have invested a good portion of their earnings into state-of-the-art processing equipment. As a result, B.C. mills are now among the most efficient in the world. Some of their U.S. counterparts have not kept up with the newest technologies, and, as a result, are finding it tough to compete. Canada shouldn't be penalized for that.

Historically, Canada and the U.S. have always shared an open border and enjoyed a cooperative relationship. To have the doors suddenly slammed shut is not only mean-spirited, it just doesn't make good economic sense.

Q4 *Do you believe there might be long-term repercussions for the United States as a result of this dispute?*

PH We need to let the Americans know that by imposing these duties they are creating tremendous ill-will in Canada. While the current trade dispute might not be of much concern to them now, they may become more disturbed if they look to Canada to provide other valuable resources, such as oil, gas and clean water, and we retaliate by charging more than the fair market value.

In addition, if the current situation continues, Canadian lumber producers will be forced to find new markets for their wood – in Europe and the South Pacific, for example. If Canada starts shipping its lumber to other countries, it's conceivable that, one day, there simply won't be enough available to service U.S. demand.

Q5 *What role is Taiga playing in trying to resolve the current trade dispute?*

PH One of our senior people has been very involved in the softwood lumber trade negotiations since 1999. Presently, he sits on an industry advisory committee that is working with the federal and provincial governments to sort out the complex issues surrounding the trade dispute. We're pleased to have some direct input into the resolution process.

Q6 *What form do you think a fair and reasonable trade agreement with the United States would take?*

PH While, obviously, the ideal situation would be a free trade policy, an export tax would be preferable to the punishing duty currently in place. I tend to agree with a proposal that suggests a duty should take effect only when softwood lumber prices drop to a very low level. Alternately, when lumber prices are above a certain level, there would be no duty at all.

Q7 *Do you believe the U.S. will return to the bargaining table?*

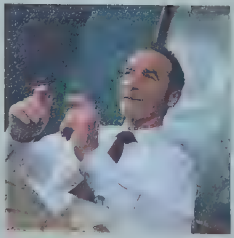
PH I believe that reason will ultimately prevail. Also, the numbers show that the Americans need our lumber. In 2001, the U.S. consumed more than 52 billion board feet of softwood lumber. Of that, approximately 19 billion board feet was produced in Canada. That's more than a third of their total consumption.

Next year, according to a Bank of America forecast, the U.S. will require an additional two billion board feet of softwood lumber to keep up with demand. That lumber has to come from somewhere.

Furthermore, Canadian softwood lumber is generally recognized as superior to the competition. Builders love our spruce, for instance, because it's very easy to handle and doesn't twist and warp as it dries, like southern pine.

The duty is also costing American home buyers and consumers money. The price of a new house, for instance, is expected to rise by as much as US $1,500 in the States. As awareness of this increases, there will be growing pressure from within the U.S. to lower the trade duties.

Finally, we believe that the U.S. government is well aware that the current duty is unjust – and that the World Trade Organization will most likely rule against upholding it. I think the Americans will probably want to reach a settlement with Canada before that happens.



Our suppliers are the most respected names in the business.

With commodity products, we partner with recognized regional lumber and panel producers like Slocan, Nexfor, Millar Western, Tolko and Tembec. In our allied lines, we've formed strong distribution relationships with leading national manufacturers like Johns Manville, Owens Corning, Emco, Grace and Trex. We round out our product mix with value-added wood products like fence panels and garden sheds, and our own Taiga Wood preserved lumber.

That way, our customers can take "just-in-time" delivery of the products they need most – and the brand names they want most.

1. 'Owens Corning' Celfort rigid insulation
2. Polyethylene sheeting
3. 'Emco' B.P. roofing products
4. Nails
5. Oriented strandboard
6. 'Grace' roofing underlayment
7. 'Johns Manville' residential insulation
8. Engineered wood products
9. Plywood panels and pressure-treated plywood panels
10. Dimension lumber
11. Wood mouldings
12. 'Trex' composite decking
13. Taiga Wood preserved lumber

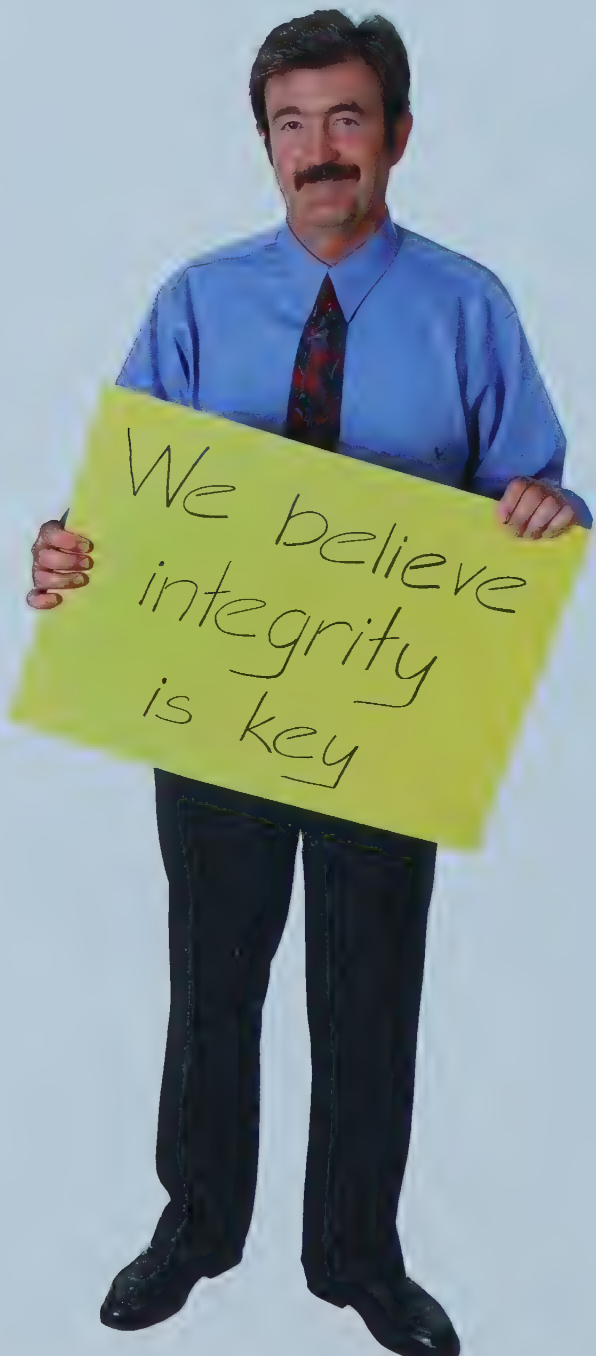
At Taiga, we never forget that our business is built on a foundation of exceptional service. Our suppliers count on us for access to national markets, and comprehensive product support. Our customers rely on us to deliver mixed loads of the products they need, when they need them. We always strive to exceed expectations – whether it's providing timely market insight, supporting sales initiatives, or meeting tight delivery deadlines. We think that's a good way to keep both parties calling – no matter where the market stands.

Bruce Morris, U.S. Sales Manager, Milton Division, sells lumber and OSB products into Eastern U.S. markets and maintains approximately 20 accounts of varying size. Last year, his cross-border sales totaled nearly $34 million – a new company record.

Most of Bruce's customers have been dealing with Taiga since he began selling to the U.S in 1996. He believes the reason our customers are so loyal is the extremely reliable sales service they receive.

"We provide dependable, worry-free service. Our customers know they can place an order with us and then forget about it. Because Taiga delivers the right product, at the right price, on time – every time. "

"We make our customers' lives easier – and that's helped us grow our sales, regardless of market conditions."



Last year, Taiga's sales of Louisiana Pacific 'Solid Start' engineered wood products grew by approximately 29%. Next year, we're expecting to repeat this performance.

John Little, Canadian Sales Manager of Engineered Wood Products, and his team are behind the exceptional growth, which he attributes almost entirely to Taiga's commitment to providing comprehensive product support.

"Aside from offering an extremely competitive product line," John says, "I believe Taiga's sales of engineered wood have grown so rapidly because we give our customers the confidence they need to get the most out of these materials."

"One of the things we do, for example, is offer hands-on, one-on-one software training sessions. We'll visit a customer's office and work with their people until they feel completely comfortable operating the program. We also offer technical support in designing joists and beams. "

"Using engineered wood requires specialized computer software, technical expertise, and on-time delivery of the product. Taiga provides all three."

We believe that the strength of any business lies in its people.

At Taiga, our people are extremely knowledgeable about building products, committed to providing excellent service, and passionate about what they do. In addition, our entrepreneurial, results-based corporate culture encourages an innovative attitude and pro-active approach. That's helped us build the best team in the business.

From our trading floors to our distribution yards coast-to-coast, our customers and suppliers know they can expect more from Taiga's people. More product support. More sales service. More value.

Donna Mohan, Administrative Assistant to the President, joined Taiga in 1973 – just two months after the company's inception. She has witnessed the full evolution of our 29-year history – and seen our annual sales grow from $43 million to $854 million. Donna attributes the company's steady advancement to one thing; Taiga's commitment to its people.

"When I look back, it strikes me that the key to Taiga's success lies in the fact that all our division heads are granted complete freedom to run their departments as they see fit."

"From the start, Taiga's senior management team adopted an entrepreneurial business philosophy. Our corporate structure empowers our managers to make operational and strategic decisions on their own, and it rewards solid performance results. I strongly believe this is one of the driving forces behind the company's success."

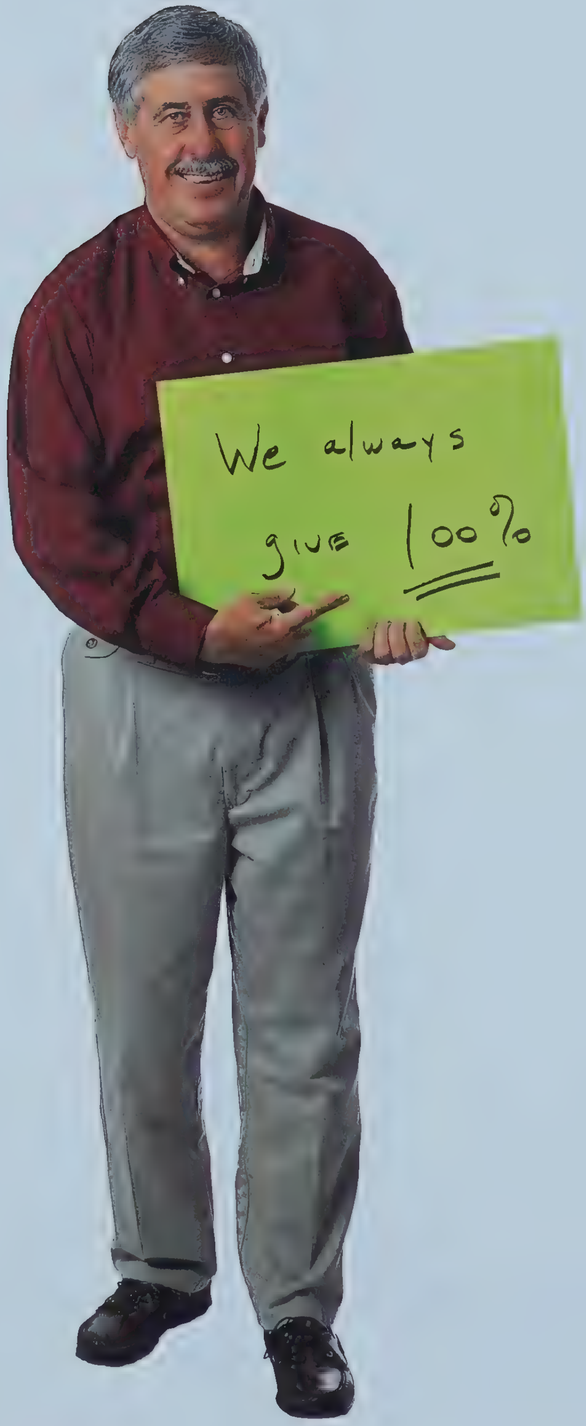
Cavin Bachert, U.S. Sales Manager, began trading lumber into the U.S. for Taiga in 1990 – and he's been answering the call of the markets ever since.

"What makes this work so exciting," says Cavin, "Is that the market is always changing. It can gain $20 one day, and lose another $20 the next. Beating the market is a challenge – one I genuinely look forward to every day."

Cavin leads a team of traders whose winning record speaks for itself. They consistently post outstanding results, regardless of market conditions.

"This past year was especially challenging, because the expiration of the Softwood Lumber Agreement meant that there were really no set ground rules," Cavin explains. "We adjusted accordingly and were actually able to increase our margins slightly."

"My traders understand the markets very well. And they understand the people they deal with. So whether commodity prices are up or down, Taiga will always be playing at the top of the game."



When Elmer Stawniczy, Manager, Edmonton Operations, started running our Northern Alberta facility in 1975, his customers were primarily small, independent lumberyards. Today, industry consolidation and the advent of "big-box" stores have changed the local market considerably.

"While a less diverse marketplace can be a tougher marketplace," says Elmer, "Taiga has achieved solid sales growth by consistently providing our customers with the two things they really want – a broad selection of high-quality products and truly outstanding service."

"Ten years ago, for instance, 'just-in-time' delivery was a relatively new concept. Today, a majority of our customers count on receiving their orders in a matter of hours. We've also expanded our product line to give them the one-stop shopping they want."

"By maintaining the exceptional quality of our products and enhancing our service offerings, Taiga has prospered in a constantly changing marketplace for nearly 30 years."

BUSINESS PROFILE

As Canada's largest independent building products distributor, Taiga Forest Products Ltd. core business is the distribution of dimension lumber, panelboards, and preserved wood products. We also specialize in the warehousing and distribution of a variety of other items, including:

- JM - Johns Manville residential insulation,
- Emco's line of BP roofing products,
- Louisiana Pacific Solid Start engineered wood products,
- Owens Corning rigid insulation,
- hardwood and softwood mouldings,
- Trex® composite decking, and
- polyethylene sheeting.

Our subsidiary companies, Envirofor Preservers (BC) Ltd. and Envirofor Preservers (Alta) Ltd., process Taiga Wood brand preserved lumber products at two new wood preservation plants located in Langley, B.C. and Edmonton, Alberta. Taiga Wood is an economical and decay-resistant product designed for durable outdoor applications such as fencing, landscaping and decking. It is distributed in Canada and the U.S. through our national distribution network, and sold to export markets in the Pacific Rim and South Pacific.

In 1999, we formed Dynamic Forest Products Ltd., a wholesale building products distributor which operates from offices in Concord, Ontario and Laval, Quebec. Dynamic sells dimension lumber, panelboards and preserved wood products into Canadian and U.S. markets.

At our remanufacturing plant in Elmira, Ontario, Taiga produces value-added wood products including good neighbour fence panels, custom-cut dimension lumber, lattice, and garden sheds for distribution throughout the southern Ontario and U.S. markets.

RESULTS OF OPERATIONS

Consolidated earnings for the year ended March 31, 2002 (or fiscal 2001) were $6.2 million, or $1.61 per share. This is a significant improvement over fiscal 2000, when we reported earnings of $841,000, or $0.22 per share.

Cash flow from operations before the $5.4 million change in future income taxes was $6.8 million, or $1.74 per share, for fiscal 2001, compared to $1.9 million, or $0.50 per share, the previous year. Cash generated from operations includes earnings of $6.2 million, plus non-cash depreciation expense in the amount of $2.1 million, less the non-cash accounting gain of $1.5 million calculated for the disposal of our former Vancouver-area property located on Ewen Avenue in New Westminster, B.C. The most significant component of future income taxes is the timing difference between accounting and income tax rules for countervailing duty accruals.

The New Westminster distribution centre and wood preservation plant were relocated to Langley, B.C. in previous years. Net cash proceeds of $2.9 million arising from the disposal of New Westminster property is included in Investing Activities.

Consolidated distribution, selling and administrative expense increased by $9.0 million to $46.8 million in fiscal 2001, up from $37.8 million the previous year. Major components of this increase are the countervailing duty accruals on softwood lumber exports to the U.S., the cost of new operations, and higher incentive payments, which are directly related to sales and profit performance.

Sales Analysis - Product Review

Market Overview

During fiscal 2001, all our operations performed well in a much-improved building products market. A prime indicator of market strength is residential housing starts, which remained strong throughout North America during the year. For the

endar year ended December 31, 2001, Canadian housing tarts increased by 7.3% to 162,733, up from 151,653 the prior American housing starts increased by 2% to 1.6 million ıring 2001, up from 1.57 million in 2000. Our financial results t this market strength.

olidated sales for our fiscal year ended March 31, 2002 by $64.1 million to $854.3 million, up from $790.2 n the previous year.

or product classes realized increased sales, with growing by $51.6 million or 10%, panelboard sales 5.0 million, or 3%, and our allied product line $102 million, or an increase of 6.6% over

land for lumber, and the resulting rise in ccount for the growth in lumber sales and the ability for all lumber products during fiscal 2001. ude dimension lumber, preserved wood, and vood products. Dimension lumber, which accounts Taiga's total lumber volume, totalled 1.2 billion board , or 2.6 million board feet, over fiscal 2000.

ling to Random Lengths Lumber Report, the price for random length, 2 x 4, kiln dried, standard and followed a rising trend throughout the year. In April 2001, our new fiscal year, the price of lumber was r thousand board feet. In May 2001, it hit a high 6. For the 12 months ending March 2002, lumber $266 per thousand board feet. The average price rior year was US $223 per thousand board feet.

same time, year-over-year sales of our preserved wood y 17%, while engineered wood products increased %. Both products realized consistent strong profit

ards

nted Strandboard ("OSB") accounts for approximately 40% of Taiga's total panelboard sales. In addition to OSB, we also sell a complete line of panels which includes spruce and fir plywood, pourform, particleboard, underlay, plywood siding and other products. We distribute these products to both residential and industrial markets. As with dimension lumber, this product line benefited from a favourable price trend during fiscal 2001. In April 2001, 7/16ths OSB, delivered Toronto, recorded lows of Cdn $200 per thousand square feet. In May 2001, and again in spring 2002, the product hit highs in the Cdn $300 to Cdn $350 range. The average price for OSB (7/16ths, f.o.b. mill, Eastern Canada) during fiscal 2001 was Cdn $273 per thousand square feet, compared to Cdn $233 the previous year. Our year-over-year unit sales of OSB increased by 10%, to 530 million square feet, 3/8ths inch basis.

Allied Products

Once again, the allied group made a significant contribution to Taiga's solid financial results. Year-over-year sales of our allied building products increased by 6.6% during fiscal 2001, growing to $102.4 million from $96 million. Notable performers were Emco's line of BP roofing products, which recorded sales of $26 million, an increase of 26% over the previous year, and Owens Corning 'Celfort' rigid insulation, which recorded an increase of 28% to grow to $7.1 million. Sales of JM Johns Manville residential insulation, our pine and medium density fibreboard ("MDF") mouldings, and Trex® composite decking also contributed to the good profit performance of the allied product line.

FINANCING ACTIVITIES

In October 2001, we renewed our existing banking arrangements with two major Canadian chartered banks. The banks share our credit requirements equally and provide access to a maximum revolving credit facility of $135 million. At March 31, 2002, we were using $79.5 million of our revolving line. We also have a fully utilized non-revolving credit facility at each bank with a combined outstanding balance of $12,160,625 at March 31, 2002. Of this amount, $6,535,625 is included in current liabilities, which will be paid or refinanced within the 12 months ending March 31, 2003. The current portion of long-term debt includes a balloon payment of $4.1 million. Provisions within our bank lending agreements allow us to refinance the outstanding long-term debt upon maturity, for terms which may extend beyond March 31, 2003. Our bank loans are secured by the assignment of inventory and accounts receivable, and general security agreements in favour of the banks.

During the 2001 fiscal year, we paid a common share dividend in the amount of $1,553,482 ($0.40 per share). We do not currently have a dividend policy.

Taiga has an established stock option plan for directors and employees. For the year ended March 31, 2002, share capital increased by $470,000 as a result of the exercise of 58,750 options.

INVESTING ACTIVITIES

Expenditures for property, plant and equipment totaled $3.1 million for fiscal 2001, compared to $7.6 million the previous year. Major expenditures include: $1.5 million for the purchase of 63,000 square feet of warehouse and plant facility, and wood processing and handling equipment for our Elmira, Ontario remanufacturing plant; $460,000 for dry storage sheds in our Edmonton, Alberta distribution centre; and $782,000 for the completion of the expanded Calgary distribution centre, from which we commenced business in March 2001.

Taiga has had operations in Calgary for 28 years. This year, our new Calgary distribution centre successfully completed its first 12 months of operation. This expanded facility is located within proximity to our municipal customers and also provides easy access to rural transportation routes. As a result, the new centre has significantly enhanced our Southern Alberta distribution capabilities.

The remainder of our capital expenditure was for the replacement or addition of equipment at various Taiga locations.

In 1999, Taiga Forest Products and Millar Western Industries Ltd. formed a company and constructed a wood preservation plant in Edmonton, Alberta. Ownership in the new company, Envirofor Preservers (Alta) Ltd., was shared equally by Taiga and Millar Western. Taiga used the preservation plant to produce preserved wood products for the Prairie market, and Millar used it to preserve shingles from their shingle mill. Following the sale of the shingle mill, Millar no longer required the services of Envirofor Preservers and, subsequent to March 31, 2002, Taiga purchased Millar's 50% ownership interest in the wood preservation company.

Our capital expenditure budget for the fiscal year ending March 31, 2003 is $3.0 million. Major capital projects planned include the installation of the latest wood preservation technology at both our Langley, B.C. and Edmonton, Alberta, Envirofor wood preservation plants.

For many years, the very successful and generally accepted chromated copper arsenate wood preservative (CCA) has been the industry standard for protecting wood against rot and insects. Recently, there has been increasing environmental pressure brought to bear against CCA because it contains two naturally occurring chemicals, chromium and arsenic. Due to the environmental debate surrounding the use of CCA, and the resulting market shift away from CCA, Taiga will convert its existing plants to handle another, more acceptable amine-based chemical. These copper-based formulations are more widely embraced in regions which no longer allow the use of CCA preserved wood, including Japan, some Scandinavian countries, and some U.S. states. The new preservatives are environmentally advanced formulations which provide long-term protection against rot, decay and termites without the use of any Environmental Protection Agency ('EPA') listed hazardous chemicals. Changing from CCA to an alternate formulation will not significantly affect our operations, as our preservation plants were designed to accommodate alternative chemicals with minimal conversion costs.

Additional capital projects include laying pavement at a number of branches, and renovating our offices in Edmonton, Alberta and Brampton, Ontario. The remaining capital expenditures will be for the replacement of material handling equipment in selected branches.

FINANCIAL POSITION

At March 31, 2002, shareholders' equity had increased to $63.2 million from $58.0 million the previous year. Working capital decreased by $1.5 million from $42.2 million during fiscal 2000, to $40.7 million during fiscal 2001. Current liabilities at March 2002 include a $4.1 million balloon payment on long-term debt, which may be refinanced for a term extending beyond March 31, 2003. Without this balloon payment, working capital would have increased by $2.6 million to $44.8 million. Our current ratio is 1.28 : 1.0 (1.32 : 1.0 before balloon payment) compared to 1.33 : 1.0 last year.

RISK FACTORS

Inventory

The wholesale building products distribution industry is characterized by large sales volumes and low gross margins. It is highly sensitive to price, quality, timeliness of delivery and continuity of supply. In addition, the demand for some of Taiga's products is cyclical and prices can change rapidly.

Our buying practices are designed to minimize the risk of rapidly

changing prices, although there can be no assurance that such practices will reduce risk. Taiga does not generally hedge its inventory risk through the purchase of lumber futures contracts. Substantially all purchases are made based on current orders and anticipated sales, and most sales are made from inventory or against product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer service. It is Taiga's management policy to turn inventory approximately 12 times per annum, however, as a wholesale building products distributor, we maintain significant quantities of inventory, the value of which is subject to the risk of changing prices.

Currency

The performance of the Canadian dollar compared to the U.S. dollar presents a certain valuation risk for inventories purchased specifically for U.S. markets. Taiga does not generally hedge these inventories with U.S. exchange forwards, relying instead on rapid inventory turnover. We continually monitor exchange trends and sell most U.S. receipts into the spot market at the most advantageous rates possible. Taiga also makes limited use of U.S. Exchange Forward contracts. At March 31, 2002, Taiga had outstanding obligations to sell US $9,000,000 at an average rate of Cdn $1.6045 during 2002.

Credit Risk

Taiga extends credit to its customers which is generally unsecured. Since the loss of a large receivable can have a substantial effect on our profitability, Taiga employs credit insurance on its largest accounts to reduce the potential for exposure to large credit losses and a system of credit management to mitigate the risk of losses due to the insolvency or bankruptcy of customers.

Interest Risk

Taiga uses significant leverage to finance day-to-day operations. The interest cost of Taiga's revolving bank facility is prime-based. During the fiscal year ending March 31, 2002, the Canadian bank prime rate started the year at 6.75% and was reduced by the Bank of Canada eight times, reaching a low of 3.75% in January 2002. Changing interest rates affect Taiga's profitability; this year's lower rates have improved it, bringing total interest expense down by approximately $1.8 million, compared to the previous year. Any rise in interest rates will increase Taiga's operating costs and may reduce net profit after income tax. We monitor current interest rates as they affect operating cost and selectively use interest rate swap agreements to diversify interest rate and credit risk.

U.S. SOFTWOOD LUMBER AGREEMENT

On April 2, 2001, petitions for the imposition of anti-dumping and countervailing duties on softwood lumber from Canada were filed with the U.S. Department of Commerce ("USDOC") and the US International Trade Commission ("USITC"), by certain U.S. industry and trade groups (the "Petitioners").

In response to the petitions, the USITC conducted a preliminary injury investigation and on May 16, 2001, determined that there was a reasonable indication that the lumber industry in the United States was threatened with material injury by reason of softwood lumber imports from Canada.

On August 9, 2001, the USDOC issued its preliminary determination in the countervailing duty investigation and imposed a duty rate of 19.31% to be posted by cash deposits or bonds on the exports of softwood lumber to the U.S. on or after August 17, 2001. The duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with U.S. law. On March 21, 2002, the USDOC issued its final determination in the countervailing duty investigation and imposed a duty rate of 19.34% to be posted by cash deposits on the exports of softwood lumber to the U.S. on or after the effective date of a Final Order.

On April 25, 2002 the USDOC issued revised final determinations in the countervailing and anti-dumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79% to be posted by cash deposits on the exports of softwood lumber to the U.S. on or after the effective date of a Final Order which was projected to be May 23, 2002. The USDOC's final determination in the anti-dumping investigation resulted in company-specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies, including Taiga. After the Final Order, Taiga will have to post cash deposits.

On May 2, 2002 the USITC voted 4 to 0 that the U.S. softwood lumber industry is threatened with material injury as a result of imports of softwood lumber from Canada. On May 16, 2002 the USITC issued written confirmation that Canadian softwood

lumber exports represent a threat of injury to U.S. lumber producers. On May 22, 2002 the 27.2% countervailing and anti-dumping duties on lumber shipments from Canada to the U.S. took effect, with the publication of the USITC's final determination in the Federal Register, and cash deposits are now required on Canadian softwood lumber exports to the U.S. As a result of this decision, the USDOC has instructed the U.S. Customs Service to cancel all bonds posted and refund all cash deposits made prior to May 16, 2002 by Canadian softwood lumber exporters on shipments to the United States. Taiga plans to reverse its accrual to date of $13.6 million during the fiscal year ending March 31, 2003 when the deposits and bonding have been released.

For accounting purposes, Taiga has accrued Cdn $6,501,530 for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the USDOC of 19.31%. We have accrued Cdn $7,115,511 for exports during the period from November 6, 2001 to March 31, 2002 representing the anti-dumping duty rate determined by the USDOC of 12.58%. For the three months ended March 31, 2002, we accrued Cdn $5,911,488 for exports during this period at the revised rate of 8.43% and reduced the accrual made in 2001 by Cdn $312,510 to reflect a reduction from 12.58% to 8.43% in the anti-dumping duty rate, a reduction from 19.31% to 18.79% in the countervailing duty rate and changes in the estimate of lumber volumes shipped during the periods.

Taiga and other Canadian forest product companies, and the Canadian federal and provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the countervailing and dumping determinations made by the USITC and USDOC. Accordingly, Canadian Interests continues to aggressively defend the Canadian industry in this U.S. trade dispute. Depending on the outcome of the investigation's final phase, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, North American Free Trade Agreement panels and the World Trade Organization. Notwithstanding the rates established in the investigations, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete.

We believe this trade dispute will be settled, and that the U.S. market will continue to import substantial quantities of Canadian softwood lumber to meet American demand. To that end, Taiga will continue trading lumber into the U.S. market within the guidelines established between the Canadian and American industry and government representatives.

OUTLOOK

North American economists and forecasters believe the outlook for 2002 is positive, although the scope of the expected economic recovery and growth in Canada appears stronger than that in the U.S.

Low interest rates have stimulated spending on building products. From September 2001 to January 2002, the Bank of Canada rate dropped 200 basis points to a historical low of 2%. On April 24, 2002, the Bank of Canada published its Monetary Policy Report which stated, " ... we see robust growth resuming in North America." Based upon this statement and the prediction of a 2% annual rate of inflation by year-end, the Bank started to reduce economic stimulus by increasing the Canadian regulatory bank rate by 25 basis points to 2.25% on April 16, 2002. We expect interest rates to increase over the long term, but feel that the current low interest rates will keep our North American business strong throughout the coming year. Low interest rates fuel our key market indicators - residential housing starts, and renovation and repairs spending.

The stated purpose of the Bank of Canada's monetary policy is to control inflation. However, the large interest rate reductions that occurred during 2001 appear to have stimulated economic activity. The Bank predicts that during 2002, the Canadian economy will grow at an annual rate between 3.50% and 4.75%. This is significantly higher than the estimated 1.5% annual growth rate experienced during the 12 months ended December 31, 2001.

Current residential housing starts remain strong despite the Canadian Mortgage and Housing Corporation's (CMHC) forecast that 2002 starts will decline by 4.1% to 156,100 from the actual starts of 162,733 recorded for the year ended December 31, 2001. Seasonally adjusted housing starts for April 2002 were 184,500. While this is down by 11.3% from the seasonally adjusted starts of 208,000 announced for March 2002, it is still 14.9% higher than a year ago. A recent CMHC news release stated the April 2002 decline was expected, as the March rate, the highest reported in 10 years, was

unsustainable. The forecast starts of 156,100 for 2002 mark the second highest level of new housing construction since 1997.

The Do-It-Yourself ('DIY') market forms a major demand component for Taiga's building products. Canadian residential renovation and repairs spending increased by 5% to $23.2 billion for the calendar year ended December 31, 2001, and has been forecast by CMHC to increase a further 4% - 5% during 2002 to reach $24.1 billion.

Approximately 25% of Taiga's total sales are destined for U.S. markets. In the U.S., the Federal Reserve (the Fed) reduced the federal funds rate to a historical low of 1.75 % during 2001. Unlike the Canadian regulators, the Fed did not increase the federal funds rate in May 2002. At the May 7, 2002 meeting of the Federal Open Market Committee ('FOMC'), the Fed stated that, "U.S. economic activity has been receiving considerable upward impetus from a marked swing in inventory investment." However, they concluded that the strengthening of 'final demand' over coming quarters, an essential element in sustained economic expansion, is still uncertain.

Notwithstanding the FOMC comments, strength in the U.S. building products markets is apparent, based on 2001 calendar housing starts of 1.603 million. This is up 2.2% from the 1.569 million starts in 2000. During the first months of 2002, U.S. housing starts have remained strong on a historic basis. The U.S. Department of Commerce reported March residential housing starts at a seasonally adjusted rate of 1.599 million, down 10% from February 2002, and down 2% from March 2001. Since 1987, there have only been three years in which the annual U.S. starts exceeded 1.6 million.

There has been considerable uncertainty in our U.S. markets due to the imposition of countervailing and anti-dumping duties during the year. The combined 27.2% duty took effect on May 22, 2002. We would prefer free trade of softwood lumber with the United States, but, at a minimum, this decision provides some much needed certainty within the market. We believe there will be a market price transition, but that continued U.S. demand for our Canadian product will drive softwood lumber sales to the U.S. at historic levels. Our U.S. sales for the fiscal year ended March 31, 2002 totalled $208.8 million, or 24% of our consolidated sales, compared to $209.2 million or 26% of our consolidated sales during fiscal 2000. Total U.S. softwood lumber consumption during calendar 2001 was 52.4 billion board feet. Of this, the American's net imports of softwood lumber totalled 19.1 billion board feet, of which 18.7 billion board feet, or 98%, came from Canada. These demand and supply statistics, taken from the Bank of America Wood & Building Products Quarterly - March 2002, are not expected to change significantly in the foreseeable future.

On the operational side, Taiga is well prepared for the upcoming year. During the last five years we have expanded and renewed our distribution centres in Langley, B.C.; Calgary and Edmonton, Alberta; Saskatoon and Regina, Saskatchewan; Milton, Ontario; and Halifax, Nova Scotia. We have also built state-of-the-art wood preservation facilities in both Langley, B.C and Edmonton, Alberta. All our distribution facilities allow us to warehouse our complete line of building products, which facilitates "just in time" mixed truckload service to all our customers. Our annual capital expenditure plans have consistently provided for the replacement of material handling equipment, which increases our operating efficiency and minimizes our distribution and handling costs.

We have also been focused on the preserved wood business since 1987. Management commitment to this product was further demonstrated this year with the purchase of our partner's 50% share of the Edmonton, Alberta plant, and the reorganization of our preserved wood management and marketing effort. We expect our presence in this market to continue to grow.

We believe our strategic, balanced, and narrowly focused product mix is one reason for our success, but we continue to look for new innovative items which complement our core products, and meet consumer demand. For example, in 2001 we earned the Canadian distribution rights for Trex® composite decking. This product is made entirely from recycled plastic and wood fibre, and complements our preserved wood product line, which is used in landscaping, patio and deck applications.

Administratively, we are constantly focused on maximizing our inventory and accounts receivable turns at reasonable profit margins, and we continue to monitor operating and administrative costs in all areas.

In summary, we conclude that overall industry economics are favourable, and that the resulting demand for building products during the coming year should continue to be strong. We expect another good year with continued growth in sales and profits.

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MANAGEMENT'S RESPONSIBILITY

The information and representations in this report were prepared by Taiga Forest Products Ltd. management. The financial statements were prepared in conformity with accounting principles generally accepted in Canada and, where necessary, reflect management's best estimates and judgements. The financial information presented throughout this report is consistent with that contained in the financial statements.

The Company maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets.The financial statements have been examined by the Company's auditors, Deloitte & Touche LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee comprised of three Directors, two of whom are not officers of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The financial statements have been reviewed by the Audit Committee which recommended their approval by the Board of Directors.

P.E. Hamill

Patrick E. Hamill
Chief Executive Officer
Vancouver, B.C.
May 3, 2002

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AUDITORS' REPORT

To the Shareholders of Taiga Forest Products Ltd.

We have audited the consolidated balance sheets of Taiga Forest Products Ltd. as at March 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles consistently applied.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Vancouver, British Columbia
May 3, 2002, except as to Note 12, which is as of May 27, 2002

CONSOLIDATED BALANCE SHEETS

As at March 31		2002	2001
ASSETS			
CURRENT			
Accounts receivable		$ 92,465,037	$ 86,169,592
Inventories	Note 2	88,570,618	78,442,632
Prepaid expenses		899,095	695,691
Income tax recoverable		–	5,333,007
Future income tax asset	Note 9	4,939,390	–
		186,874,140	170,640,922
OTHER ASSETS AND INVESTMENTS	Note 3	460,541	401,643
FIXED ASSETS	Note 4	30,308,876	30,644,120
		$ 217,643,557	$ 201,686,685
LIABILITIES			
CURRENT			
Bank indebtedness	Note 6	$ 79,474,223	$ 84,413,245
Accounts payable		53,111,808	41,562,381
Current portion of long-term debt	Note 7	6,535,625	2,428,600
Income taxes payable		7,088,124	–
		146,209,780	128,404,226
LONG-TERM DEBT	Note 7	5,625,000	12,160,625
FUTURE INCOME TAXES	Note 9	2,616,797	3,090,240
		154,451,577	143,655,091
COMMITMENTS AND CONTINGENCIES	Note 12		
SHAREHOLDERS' EQUITY			
Capital stock	Note 8	12,499,460	12,029,460
Retained earnings		50,692,520	46,002,134
		63,191,980	58,031,594
		$ 217,643,557	$ 201,686,685

APPROVED BY THE DIRECTORS:

P.E. Hamill

Patrick E. Hamill, Director

J.B. Aune

J. Brian Aune, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended March 31		2002	2001
SALES		$ 854,312,710	$ 790,166,932
COST OF SALES		795,117,118	744,702,552
GROSS PROFIT		59,195,592	45,464,380
EXPENSES			
Distribution, selling and administration		46,898,526	37,834,981
Interest			
Current		3,408,838	5,165,499
Long-term		1,098,124	1,118,815
		51,405,488	44,119,295
OPERATING INCOME		7,790,104	1,345,085
NON-OPERATING INCOME		817,187	372,396
EARNINGS BEFORE INCOME TAXES		8,607,291	1,717,481
INCOME TAXES	Note 9	2,363,423	876,531
NET EARNINGS FOR THE YEAR		6,243,868	840,950
RETAINED EARNINGS, BEGINNING OF YEAR		46,002,134	45,161,184
COMMON SHARE DIVIDENDS		(1,553,482)	–
RETAINED EARNINGS, END OF YEAR		$ 50,692,520	$ 46,002,134
Basic earnings per share		$ 1.61	$ 0.22

Years ended March 31		2002	2001
OPERATING ACTIVITIES			
Net earnings		$ 6,243,868	$ 840,950
Items not requiring an outlay of funds			
Depreciation and amortization		2,054,146	1,656,050
Gain on disposition of fixed assets		(1,530,137)	(574,119)
Future income taxes		(5,412,833)	3,364,560
		1,355,044	5,287,441
Change in non-cash operating working capital	Note 10	7,343,723	41,083,242
		8,698,767	46,370,683
FINANCING ACTIVITIES			
Repayment of long-term debt		(2,428,600)	(2,428,600)
Dividends paid to common shareholders		(1,553,482)	–
Issuance of capital stock		470,000	20,000
		(3,512,082)	(2,408,600)
INVESTING ACTIVITIES			
Proceeds from disposition of fixed assets		2,898,021	1,626,139
Purchase of fixed assets		(3,086,786)	(7,630,869)
Other assets and investments		(58,898)	(361,166)
		(247,663)	(6,365,896)
NET CASH INFLOW		4,939,022	37,596,187
BANK INDEBTEDNESS, BEGINNING OF YEAR		(84,413,245)	(122,009,432)
BANK INDEBTEDNESS, END OF YEAR		$ (79,474,223)	$ (84,413,245)

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 4,199,886	$ 4,896,287
Taxes paid	$ 905,186	$ 4,143,140

MARCH 31, 2002 AND 2001

1. Accounting Policies

(a) Consolidation

These financial statements include Taiga Forest Products Ltd. and its wholly-owned subsidiaries, Elmira Wood Products Ltd., Envirofor Preservers (B.C.) Ltd., 548421 British Columbia Ltd., 548422 British Columbia Ltd., 624858 British Columbia Ltd., 2903 Ltd., Dynamic Forest Products Ltd. and Taiga Forest Products General Partnership.

(b) Investments

Investments in corporations in which the Company exercises significant influence are accounted for by the equity method, whereby the investment is initially recorded at cost and is adjusted to recognize the Company's share of earnings or losses and reduced by dividends and distributions received.

(c) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciation is provided annually using the following methods and rates:

	Rate	Method
Buildings	5%	Declining balance
Furniture and office equipment	8% to 30%	Declining balance
Warehouse and manufacturing equipment	10% to 30%	Declining balance
Other properties	2-1/2%	Straight-line
Leasehold improvements	20%	Straight-line

The Company reviews the carrying values of its capital assets on a regular basis, by reference to estimated future operating results and undiscounted net cash flows. If the carrying value of these assets exceeds estimated net recoverable amounts, a provision for impairment will be made for the other than temporary decline in value.

(d) Inventories

Yard, reload, remanufacturing and treating inventories are valued at the lower of average cost and net realizable value.

(e) Revenue recognition

Sales are recognized at the time products are shipped to external customers.

(f) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Share-based compensation

The Company has one share-based compensation plan which is described in Note 8. No compensation expense is recognized for the plans when shares or share options are issued to directors, officers and employees. Any consideration paid by directors, officers and employees on exercise of share options or purchase of shares is credited to share capital.

(h) Income taxes

The Company uses the asset and liability method of accounting for future income taxes. Under this method future income tax liabilities and future income tax assets are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses are recognized, subject to a valuation allowance, to the extent that it is more likely than not

that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

(i) Foreign currency translation

Transactions denominated in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year-end exchange rate. Exchange gains and losses are included in earnings.

(j) Earnings per share

Earnings per share have been calculated on the weighted average number of voting common shares outstanding during the periods. Fully diluted earnings per share calculations have not been presented as these would not differ materially from basic earnings per share. Effective April 1, 2001 the Company adopted the new standard for calculating earnings per share resulting in no material difference.

2. Inventories

	2002	2001
Lumber products	$ 59,934,815	$ 52,777,044
Panel products	16,481,660	11,608,577
Allied building products	12,154,143	14,057,011
	$ 88,570,618	$ 78,442,632

3. Other Assets and Investments

During the year ended March 31, 1999, the Company acquired a 50% equity interest in Envirofor Preservers (Alta) Ltd. for $1. As at March 31, 2002 the carrying value of the investment, including amounts advanced, is $435,542 (2001 - $389,740).

4. Fixed Assets

			2002	2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 7,346,045	$ –	$ 7,346,045	$ 8,748,006
Buildings	22,757,334	4,204,705	18,552,629	17,290,019
Furniture and office equipment	2,357,851	1,559,937	797,914	854,388
Warehouse and manufacturing equipment	6,773,437	3,828,356	2,945,081	2,871,272
Other properties	693,131	428,187	264,944	274,094
Leasehold improvements	1,424,119	1,021,856	402,263	606,341
	$ 41,351,917	$ 11,043,041	$ 30,308,876	$ 30,644,120

5. Financial Instruments

The Company has financial instruments which include accounts receivable, bank indebtedness, accounts payable and accruals, and long-term debt, the carrying values of which approximate fair values at March 31, 2002 and 2001.

Financial risk is the risk to the Company's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates.

(a) Interest rate risk

The Company is exposed to interest rate fluctuations through its financing and cash management activities in the form of long-term debt. To manage this exposure, the Company has entered into seven interest rate swap agreements, three three-year agreements and one four-year agreement with The Bank of Nova Scotia and two three-year agreements and one four-year agreement with HSBC. These interest rate swaps convert the floating rate loans to a fixed rate basis.

Counterparty	Maturity Date	Notional Amount	Fixed Interest Rate	Market value at March 31, 2002
HSBC Bank of Canada	June 28, 2002	$ 3,000,000	5.920%	(25,803.11)
HSBC Bank of Canada	October 26, 2004	2,500,000	3.840%	49,243.51
HSBC Bank of Canada	October 26, 2005	1,500,000	4.250%	37,593.58
Bank of Nova Scotia	June 30, 2002	3,000,000	5.865%	(26,210.00)
Bank of Nova Scotia	October 26, 2004	2,500,000	3.920%	23,000.00
Bank of Nova Scotia	October 26, 2005	1,500,000	4.350%	13,682.00
Bank of Nova Scotia	August 18, 2003	10,000,000	6.280%	(396,600.00)

The effect of the swap income (expense) is recorded in income as incurred.

(b) Foreign exchange risk

Approximately 24% (2001 - 27%) of the Company's sales are denominated in U.S. currency. Normally cash receipts from these sales are sold into the spot market at prevailing exchange rates. As at March 31, 2002, the Company has outstanding obligations to sell U.S.$9 million (2001 - U.S.$5.5 million) at an average rate of Cdn.$1.60446 during 2002 (2001 - Cdn.$1.54764). Based on the exchange rate at March 31, 2002, there is no significant unrealized gain or loss with respect to these commitments.

6. Bank Indebtedness

	2002	2001
Excess of cheques written over cash in bank	$ 9,404,443	$ 9,400,421
Credit facility secured by a general assignment of book debts and inventories and general security agreements in favour of the banks	70,069,780	75,012,824
	$ 79,474,223	$ 84,413,245

7. Long-term Debt

	2002	2001
Loan payable, bearing interest at the Company's bank's prime rate plus 1/4%, payable monthly. Principal is payable in quarterly instalments of $357,150 commencing in April 1999 with a final payment of the balance of principal and interest owing at March 31, 2003.	$ 5,535,625	$ 6,964,225
Loan payable, bearing interest at the Company's bank's prime rate plus 1/4% payable monthly. Principal is payable in equal quarterly instalments of $250,000 which commenced September 1998 with a final payment of the balance of principal and interest owing at June 20, 2003.	6,625,000	7,625,000
	12,160,625	14,589,225
Less current portion	6,535,625	2,428,600
	$ 5,625,000	$ 12,160,625

8. Capital Stock

(a) Authorized 50,000,000 common shares

Issued and outstanding

	Number of Shares	Amount
March 31, 2000	3,822,460	$ 12,009,460
Issued on options April 1, 2000 to March 31, 2001	2,500	20,000
March 31, 2001	3,824,960	12,029,460
Issued on options April 1, 2001 to March 31, 2002	58,750	470,000
March 31, 2002	3,883,710	$ 12,499,460

(b) The Company has established a stock option plan for directors and employees. The Company has reserved 192,000 common shares for this plan, which vest over a five-year term. Details are as follows:

	March 31, 2002		March 31, 2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at the beginning of year	173,250	$ 9.03	175,750	$ 9.02
Exercised	(58,750)	8.00	(2,500)	8.00
Expired	(2,500)	8.00	–	–
Outstanding at end of year	112,000	9.59	173,250	9.03
Options exercisable at year-end	86,500	$ 9.55	117,250	$ 8.76

9. Income Taxes

The reported income tax differs from the amount computed by applying the Canadian basic statutory tax rates to the net income. The reasons for this difference and the related tax effects are as follows:

	2002	2001
Expected income tax expense	$ 3,410,221	$ 764,279
Effect of manufacturing and processing deduction	(22,278)	(100,201)
Non-deductible expenses and other deductions	123,110	784,204
Benefit of temporary differences recognized	(788,835)	(652,900)
Other	–	81,149
Benefit of rate reduction	(358,795)	–
	$ 2,363,423	$ 876,531

Future income taxes result principally from temporary differences in the recognition of certain revenue and expense items for financial and income tax reporting purposes. Significant components of the Company's future tax assets and liabilities are as follows:

	2002	2001
Future income tax assets		
Current book and tax base differences on assets and liabilities	$ 5,316,994	$ –
Long-term book and tax base differences on assets and liabilities	729,656	569
Future income tax liabilities		
Current book and tax base differences on assets and liabilities	(377,604)	–
Long-term book and tax base differences on assets and liabilities	(3,346,453)	(3,090,809)
Net future income tax assets (liabilities)	$ 2,322,593	$ (3,090,240)

10. Change in Non-Cash Working Capital

	2002	2001
Accounts receivable	(6,295,445)	$ 23,473,369
Inventories	(10,127,986)	25,964,371
Prepaid expenses	(203,404)	985,525
Accounts payable	11,549,427	(3,614,743)
Income taxes payable	12,421,131	(5,725,280)
	$ 7,343,723	$ 41,083,242

11. Segmented Information

The Company operates primarily in the wholesale products distribution industry segment. During the year ended March 31, 2002, the Company had export sales of Cdn.$208,811,000 (2001 - Cdn.$209,202,000), primarily to the United States.

12. Commitments and Contingencies

(a) Softwood lumber countervailing duties

On April 2, 2001, petitions for the imposition of anti-dumping and countervailing duties on Softwood Lumber from Canada were filed with the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC"), by certain U.S. industry and trade groups (the "Petitioners").

In response to the petitions, the USITC conducted a preliminary injury investigation and on May 16, 2001, they determined there was a reasonable indication that the lumber industry in the United States was threatened with material injury by reason of softwood lumber imports from Canada.

On August 9, 2001, the USDOC issued its preliminary determination in the countervailing duty investigation and imposed a duty rate of 19.31% to be posted by cash deposits or bonds on the exports of softwood lumber to the U.S. on or after August 17, 2001. The duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with U.S. law. On March 21, 2002, the USDOC issued its final determination in the countervailing duty investigation and imposed a duty rate of 19.34% to be posted by cash deposits on the exports of softwood lumber to the U.S. on or after the effective date of a Final Order.

On April 25, 2002, the USDOC issued revised final determinations in the countervailing and anti-dumping investigations. The USDOC's final determination in the countervailing investigation resulted in a duty rate of 18.79% to be posted by cash deposits on the exports of softwood lumber to the U.S. on or after the effective date of a Final Order which was projected to be May 23, 2002. The USDOC's final determination in the anti-dumping investigation resulted in company-specific duty rates ranging from 2.18% to 12.44% on the six companies investigated and an all other rate of 8.43% for all other companies, including Taiga. After the Final Order, the Company will have to post cash deposits.

On May 2, 2002, the USITC voted 4 to 0 that the U.S. softwood lumber industry is threatened with material injury as a result of imports of softwood lumber from Canada. On May 16, 2002, the USITC issued written confirmation that Canadian softwood lumber exports represent a threat of injury to U.S. lumber producers. On May 22, 2002, the 27.2% countervailing and anti-dumping duties on lumber shipments from Canada to the U.S. took effect, with the publication of the USITC's final determination in the Federal Register, and cash deposits are now required on Canadian softwood lumber exports to the U.S. As a result of this decision, the USDOC has instructed the U.S. Customs Service to cancel all bonds posted and refund all cash deposits made prior to May 16, 2002 by Canadian softwood lumber exporters on shipments to the United States. Taiga plans to reverse its accrual to date of $13.6 million during the fiscal year ending March 31, 2003 when the deposits are released.

For accounting purposes, the Company has accrued Cdn.$6,501,530 for the period from August 17, 2001 to December 15, 2001 representing the preliminary countervailing duty rate determined by the USDOC of 19.31%. The Company has accrued Cdn.$7,115,511 for exports during the period from November 6, 2001 to March 31, 2002 representing the anti-dumping duty rate determined by the USDOC of 12.58%. For the three months ended March 31, 2002, the Company accrued Cdn.$5,911,488 for exports during this period at the revised rate of 8.43% and reduced the accrual made in 2001 by Cdn.$312,510 to reflect a reduction from 12.58% to 8.43% in the anti-dumping duty rate, a reduction from 19.31% to 18.79% in the countervailing duty rate and changes in the estimate of lumber volumes shipped during the periods.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian Industry in this U.S. trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, North American Free Trade Agreement panels and the World Trade Organization. Notwithstanding the preliminary rates established in the investigations, the final liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete.

(b) Outstanding legal matters

The Company is involved in certain legal actions and claims. It is the opinion of management that all legal matters will be resolved without material effect on the Company's consolidated financial statements.

(c) Obligations

The Company has obligations in respect of operating leases for premises and equipment as follows:

2003	$ 2,116,669
2004	1,424,007
2005	695,651
2006	395,174
2007	224,916

13. Subsequent Event

Subsequent to year-end, the Company increased its ownership in Envirofor Alberta to 100% from 50% by acquiring the remaining common share from the other shareholder, for a purchase price of $425,000.

taiga CORPORATE INFORMATION

Board of Directors

J. Brian Aune	Montreal	Quebec
Jimmie Bradshaw	North Vancouver	British Columbia
Patrick E. Hamill	Burnaby	British Columbia
Douglas Morris	Toronto	Ontario
Saul Spears	Toronto	Ontario
Chee Fong (Paul) Yeong	Kuala Lumpur	Malaysia
Robert Yong Kuen Loke	Kuala Lumpur	Malaysia
Meng Kwong Lim	Kuala Lumpur	Malaysia
Kok Kay (Alain) Lee	Pompano Beach	Florida

Officers

Patrick E. Hamill
President, CEO

Jimmie Bradshaw
Vice President,
Building Materials

Douglas Morris
Vice President,
Eastern Operations

Lloyd Hansen
Chief Financial Officer

Patrick J. Furlong
Secretary

Transfer Agent

ComputerShare Trust
Company of Canada
Vancouver, B.C.

Auditors

Deloitte & Touche, LLP
Vancouver, B.C.

Stock Exchange

Toronto (TSX)
Trading Symbol – TFP

Solicitors

Davis & Company
Vancouver, B.C.

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Chief Financial Officer
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Facsimile 604 439 4242

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Annual General Meeting

Taiga's 9th Annual General Meeting will be held in the Chateau Belair Room of the Sutton Place Hotel, 845 Burrard Street, Vancouver, British Columbia at 11:00 am on July 24th, 2002.

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